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SUBJECT: Finance Minister Says Election Delay Won't Impact Budget

11. (SBU) Summary: On January 27, the Finance Minister told the Ambassador that a slight delay in elections would not have a major impact on this year's budget. He said that the USD 217 million shortfall in customs revenue was due to problems with a new computerized system, which were being remedied. Diby was confident that the President would hold the line on civil service expenditures so as not to endanger the country's HIPC program. End Summary

Customs Revenue Far Below Target

12. (SBU) On January 27, Ambassador and Pol/Econ Chief met with Finance Minister Charles Diby to discuss budget issues. Diby went into great detail about a customs revenue shortfall that he estimated at 100 billion FCFA (USD 217 million). If this had not occurred, he claimed that Cote d'Ivoire would have ended the year with a slight budget surplus. He attributed the shortfall to a poorly managed transition to a computerized customs system, installed in response to the business community's demands to process transactions in 48 hours or less. Rather than gradually installing the system, however, the Director General of Customs had managed the transition poorly, "brutally" canceling the old system without ensuring the new one was functional. The Finance Minister said he was now personally involved in the issue, reinforcements had been sent to Customs, and that the backlog was systematically being eliminated. Even in December, he remarked, customs revenues were up from October and November lows. At the January 26 World Customs Day celebrations, Diby noted, business people recognized the problem and were generally satisfied with the efforts being made to rectify it.

Reforms are Increasing Farmers' Incomes

13. (SBU) Due to these lower than expected inflows, Diby was unable to reduce domestic debt arrears. He said that he also cut government spending to the bone two months before the end of the year in order to reduce the deficit, although he was quick to note that pro-poverty spending (health, water, education, infrastructure) and investment spending had not been affected. Asked about child labor programs, Diby assured Ambassador that spending for them was not affected. The programs are financed from the Investment Fund for Rural Infrastructure, previously run by the Coffee/Cocoa Management Committee, and are not an integral part of the budget. Spending for 30 or so targeted villages (pumps, schools) continued. This fund was created in 2006 with the support of the World Bank, and received half of the 25 FCFA levy per kilo of coffee/cocoa during the October 2008-September 2009 harvest cycle. (Note: the government has reduced the tax for the current harvest cycle, so the fund receives half of 16.30 FCFA per kilo. End note)

14. (SBU) Diby claimed that because of the work already done by this fund to improve local roads, more buyers were able to reach cocoa farmers, and the increased competition meant that farmers were actually getting the (record) official farm-gate indicative price of 1,000 FCFA per kilo set as a target by the Coffee and Cocoa Management Committee. The Ambassador encouraged Diby to publicize these accomplishments. (Note: Industry insiders have told post that the record-high prices are driven by projections of low cocoa bean production in Cote d'Ivoire--quite contrary to the Finance Minister's upbeat presentation of the market's dynamics. End note.) Diby said there were several billion CFA in the fund's account and as they recently started work, plenty of money remains. Diby also mentioned that he is now personally involved in reforms that directly affect CdI's HIPC program such as reform of the cocoa/coffee sector.

Election Delay Will Have No Major Impact on Budget

15. (SBU) Diby did not believe that the delay in elections would significantly impact the budget. His assistant said that the 2010 budget had allocated 115 billion FCFA (USD 250 million) for the "sortie de crise", which included budgets for SAGEM, and the other electoral entities such as ONI and CNSI. Since money has also been

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budgeted for parliamentary and communal elections, if the presidential elections are delayed by a few months, Diby did not believe this would present a problem for the budget.

Government Will Hold the Line on Civil Service Expenses

16. (SBU) Diby said he had told Gbagbo that he must hold firm on civil service expenditures, which already consume 40 percent of government revenues, a percentage which Diby said needed to be reduced. If not, the wage bill could easily increase to 1,000 billion FCFA (USD 2.17 billion), compared with the IMF target of 814 billion FCA, or USD 1.77 billion, which would cause the HIPC program to "collapse." Diby said that Gbagbo had "really understood" the message (as evidenced by his New Year's speech which took a hard line against strikes by government workers).

Extractive Industries Transparency Initiative Lagging

17. (SBU) According to Diby, the consultant doing the audit of the accounts has taken ill; this is not Cote d'Ivoire's fault if it falls behind schedule. Diby said the World Bank is aware of the situation, implying that they were sympathetic to his view. (Note: The consultant cites other reasons for the delay: "difficulties and delays in obtaining information from the entities covered by the EITI exercise" (i.e., the relevant GOCI agencies); incomplete data provided by GOCI sources; and "material differences in flows" reported by the private firms and GOCI agencies involved in the exercise, which the consultant had to resolve. End note.)

18. (SBU) Comment: Diby was recently named Finance Minister of the year by a sister organization of the Financial Times and continues to receive very high marks from the IMF and World Bank. By arguing that the country must meet the IFIs targets if it hopes to obtain debt relief, he has been able to curb some of the worst budgetary abuses but it is clear that he still has an uphill battle.

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